



News Release

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Washington, D.C.

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For Release: 1/22/02

Release No: IR-2003-8

**IRS PROVIDES INVENTORY VALUATION METHOD FOR THE AUTOMOTIVE
REMANUFACTURING INDUSTRY**

WASHINGTON –The Internal Revenue Service today issued guidance that provides an inventory valuation method for rebuildable motor vehicle cores. In the remanufacturing industry, worn or used parts (cores) are rebuilt when received from customers and other sources.

The guidance was released as part of the Industry Issue Resolution (IIR) program. The IIR program, launched by the IRS in 2001, tackles issues submitted by taxpayers, associations and other groups representing businesses. The objective is to work cooperatively to resolve frequently disputed or burdensome tax issues.

The IRS issued guidance on the proper valuation of core inventory in Revenue Procedure 2003-20. This safe harbor procedure permits taxpayers using the Lower of Cost or Market (LCM) inventory valuation method to value their inventory of cores by reference to prices in an established core supplier market.

The revenue procedure applies to the entire remanufacturing distribution chain including remanufacturers, distributors, wholesalers and retailers. Industry estimates suggest that as many as 50,000 taxpayers could be affected by this guidance.

Valuation of inventory can be a key issue not only for the manufacturing industry, but for the retail industry as well. The value of a business's inventory, which can be calculated using several different methods, affects a company's income. This income, in turn, is used to calculate a business's tax liability.

The revenue procedure is effective for tax years ending on or after December 31, 2002 and may be elected using the automatic change in method of accounting provisions found in Revenue Procedure 2002-09. The safe harbor method is available only to taxpayers that have elected to use the LCM inventory method. It is not available to taxpayers that have elected the Last-In, First-Out (LIFO) inventory method unless such taxpayers concurrently change from LIFO to a permitted LCM inventory method.

Revenue Procedure 2003-20 will be in the Internal Revenue Bulletin 2003-6, dated Feb. 10, 2003. and will be posted on the IRS Web site, www.irs.gov. Information on the Industry Issue Resolution (IIR) program may be found in Notice 2002-20 and in the Internal Revenue Bulletin 2002-17, also available at the Web site.

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